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INTERNATIONAL ECONOMIC SITUATION: The new US economic policy has been met largely with equanimity in foreign official circles but with considerable consternation by foreign businessmen.

Suspension of the convertibility of foreign-held dollars into gold at \$35 per ounce resulted in nearly all major industrialized countries closing their foreign exchanges and gold markets yesterday to gain time to assess the results and to determine responses. The notable exception was Japan. The Bank of Japan refused to allow the dollar to float, absorbing over \$600 million as it continued to support the yen-dollar parity. Japanese officials attribute the supply of dollars to Japanese commercial banks reducing their dollar holdings plus some adjustments in the timing of trade payments. Meanwhile, Tokyo's stock average continues to register a sharp decline in anticipation of lost export opportunities in the US.

International monetary uncertainty will continue as most major exchange markets remain closed again today while intergovernmental discussions take place on appropriate actions. Following the meeting of Treasury Under Secretary Volcker with his European financial counterparts in London yesterday, the EC Monetary Committee convenes in Brussels today. Belgian Finance Minister Snoy stated publicly a belief that the US action should prompt an accelerated movement toward EC monetary union. In Bonn a Foreign Office official has indicated that the German reponse will be in the Community context.

Moscow reports that the US action reflects the "very deep crisis of American capitalism" and that the "cure" proposed is at the expense of "the working people," a judgment parroted by the northern tier of East European states. Romania and Yugoslavia limited themselves to factual reports. [REDACTED]

[REDACTED]

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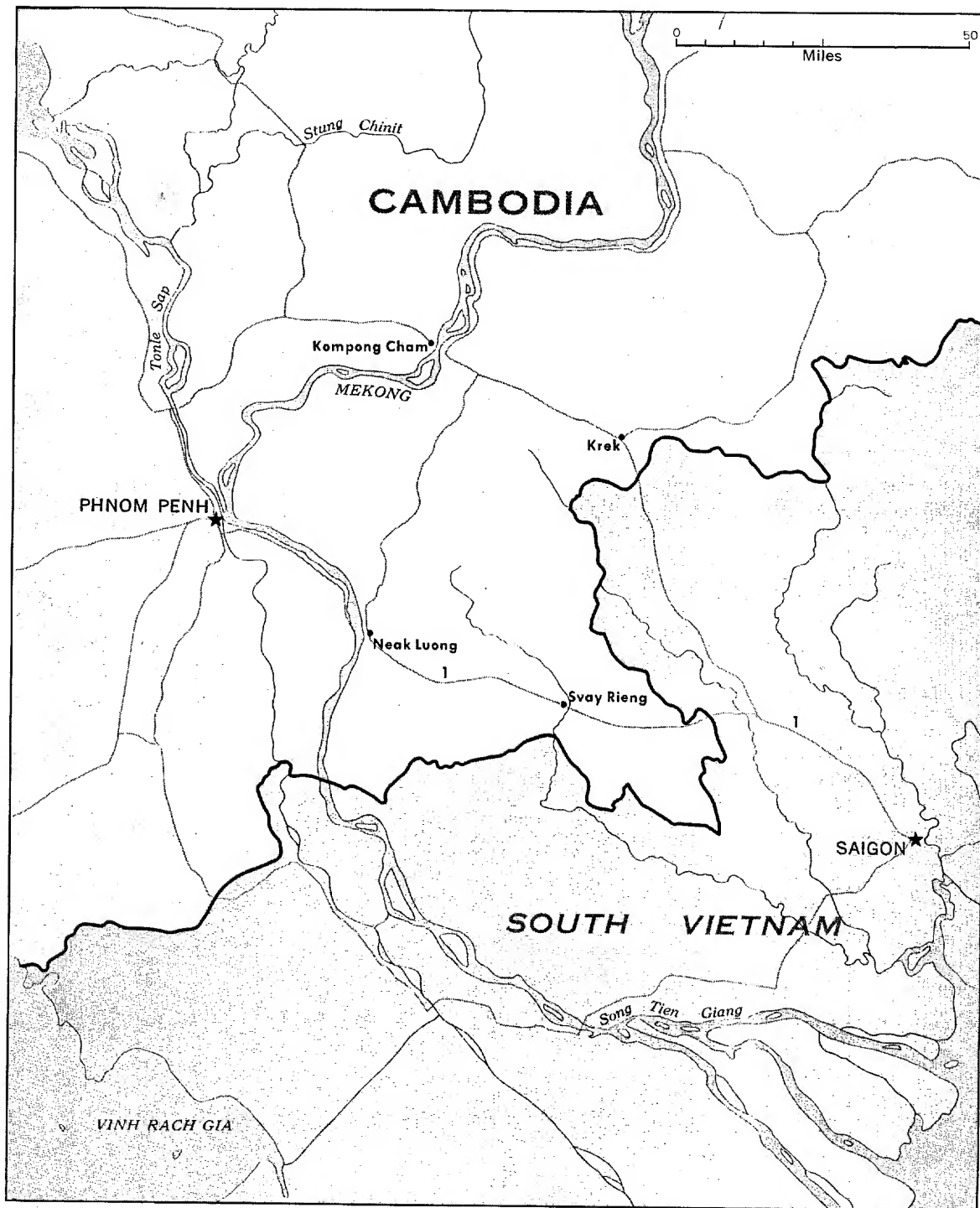
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CAMBODIA - SOUTH VIETNAM: Phnom Penh is moving to reduce its military dependence on Saigon.

According to a recently announced plan, the Cambodian Navy (MNK) is to assume full command and control responsibility from the South Vietnamese Navy for escorting and protecting all ship convoys on the Mekong River on 1 September--rather than taking over gradually as recommended by South Vietnamese and US officials. In line with that plan, Phnom Penh has also formally requested that the South Vietnamese vacate their major base on the Mekong at Neak Luong. A Cambodian delegation reportedly arrived in Saigon yesterday to begin working out a schedule for the South Vietnamese withdrawal from that installation.

25X1 [redacted] the Cambodians want to have immediate, complete control of military operations on the Mekong because they cannot work with the South Vietnamese with the "mutual trust" that a phased turnover would require. There are indications, however, that the Cambodians are ill-prepared to replace the South Vietnamese in maintaining security along the river. The MNK, for example, has less than half the number of boats presently being used by the South Vietnamese, and most of them are in bad condition. Moreover, the MNK does not have adequate support facilities.

It is likely that Phnom Penh's apparent determination to go forward with its plans has been dictated in part by domestic political considerations. In addition to trying to demonstrate that it is becoming militarily more self-reliant, the Lon Nol government undoubtedly also wants to decrease the South Vietnamese presence in order to reduce the likelihood of further depredations by South Vietnamese troops operating on Cambodian soil. Despite its clear desire for control over the Mekong, however, Phnom Penh probably recognizes that it will have to continue to rely on Saigon for many forms of military support for the foreseeable future. [redacted]

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PAKISTAN: Guerrilla activity in East Pakistan appears to be on the increase.

Fragmentary reporting suggests that Bengali insurgents are active in a larger number of areas than previously and that their strength is growing. [REDACTED]

[REDACTED] the Mukti Bahini (Liberation Force) was even able to hold a village near the Indian border against three attacks by West Pakistani troops.

The most widely publicized recent incident was the bombing of the Dacca Intercontinental Hotel in which 19 people were injured. Bombings--usually doing little damage--have been frequent in Dacca and presumably are aimed at preventing a return to life as usual. In Chittagong, a similar campaign may be causing some people to leave the city.

There have also been many assassinations, probably intended to discourage East Pakistanis from collaborating with the government. Possibly the most important victim so far is the vice president of a small religious party, who was killed as he was making a progovernment speech.

In addition [REDACTED] guerrillas have begun attacking installations of the jute industry--Pakistan's largest foreign exchange earner. Two jute warehouses have been burned, and bombings near factories are probably designed to encourage workers to stay away.

The army has been able to open several transportation routes previously blocked by blown bridges, but guerrillas have closed others. Mining of roads is also a problem. On 2 August, two returning refugees were killed and 30 wounded when their bus struck a mine.

Despite rumors of an impending "Tet offensive," the guerrillas do not appear strong enough to challenge the army. Nevertheless, they continue to demonstrate their ability to prevent military authorities from re-establishing normal conditions. [REDACTED]

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VENEZUELA: The government has signaled its intention to deal vigorously with the current serious strike at the state-owned steel mill.

Last week the minister of labor declared the strike illegal and ordered the workers to return to their jobs. Defiance of the government's decree has resulted in the arrest of several labor leaders and orders for the arrest of others who are in hiding. In addition, the government has deployed police, national guard, and army troops to strategic places in the area of the strike.

The strike began on 7 August in support of another strike against the Orinoco Mining Company and because of asserted contract violations. Both strikes are largely politically motivated. The Orinoco strike, which began on 30 June at the end of the contract year and is therefore legal, involves an effort by labor leaders affiliated with opposition New Force political parties to weaken the government-oriented Confederation of Workers of Venezuela. The strike at the government-owned steel mill is largely the work of the Movement to Socialism, a breakaway Communist party.

The military suspect that "leftists" are trying to use labor and student problems to harass the government continuously. Thus, the government is assured of firm military backing in its strong stand against the illegal strike.

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NOTE

AUSTRALIA-USSR: Moscow has bought 500,000 tons of Australian wheat worth about \$28 million for delivery during the first half of next year. With additional charges for insurance and freight, the total value of the contract probably will be well above \$30 million. This wheat, like most of the 3.5 million tons recently purchased from Canada, probably will be substituted for poor-quality domestic wheat currently being fed in large quantities to livestock. Although prospects for this year's wheat crop are highly favorable, the USSR's policy of increasing substantially the domestic availability of livestock products has raised the demand for all types of feed grains.

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